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NO. 67

DATE: 13 September 1949

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INTELLIGENCE HIGHLIGHTS NO. 67  
7 SEPTEMBER - 13 SEPTEMBER 1949

SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

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The continued failure by Radio Pyongyang to mention the proposed September Korean "national elections" may indicate that they are to be "postponed" and that the Communists have made a serious error in estimating their capabilities (p. 4 ).

In China there was little civil war activity during the last week (p. 5 ). The 1 August Manchurian-USSR Trade Pact, which was primarily a propaganda gesture may boomerang (p.5 ). The success of the Chinese Communists in maintaining the level of exports through Tientsin testifies to the limited effectiveness of the Nationalist blockade (p.6 ).

Although reports from Indonesia concerning the effectiveness of the month-old cease-fire order are favorable, Dutch military forces are prepared to "consolidate" their positions--a move which would preclude the success of The Hague Roundtable Conference (p. 7 ).

The attitudes of neighboring Southeast Asian countries toward Bao Dai's "independent" state of Vietnam are still decidedly reserved as evidenced by the cool reception accorded letters recently sent by the Emperor announcing the establishment of his state (p.8 ).

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The marginal notations used in succeeding sections of this Weekly ("A", "B", or "C") indicate the importance of the items in R/FE opinion with "A" representing the most important.

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A favorable effect on the stability of Malaya will result if the implementation of a recently-stated US policy, which would open natural rubber to a wider market in the US, is successful (p. 9 ).

Although the Philippine presidential elections are to be held within two months, no one of the three candidates has a sufficient edge on his rivals so that observers may definitely predict the likelihood of his victory (p. 9 ).

NOTE: A B/FE summary of recent cables from China which have discussed the means available to the West of fostering trends toward Titoism in China is contained in Section III, p.10 .

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KOREA

Pyongyang "drops" proposed "national elections"—For the third consecutive week, Radio Pyongyang has failed to mention the proposed September "nation-wide" elections called for by the 29 June Manifesto of the "Democratic Front for National Unification." If, as now appears probable, the Korean Communists have decided to drop or postpone the widely advertised "national elections" they will suffer a considerable loss of face in both northern and southern Korea with the Republic gaining a psychological victory.

Failure to conduct "elections" in southern Korea probably would indicate that the Communists made a serious error in their estimates last spring of their potential capabilities in southern Korea this fall. Although Communist guerrillas were increasingly effective during July and August, strong summer action by the Republic has disrupted much of the Communist underground, including key cells in the National Assembly, while promises and threats of Pyongyang failed to gain the support of southern political leaders for the "election" and the "Unification Front."

Faced with failure of their greatest propaganda effort to date to create confusion and instability in southern Korea, the Communists have several possible courses of action in the immediate future: (1) They simply may drop the election issue and again concentrate on rebuilding the underground in southern Korea while following usual propaganda lines; (2) The current meeting of the Supreme Peoples' Assembly may revive the election line and announce that the elections have been postponed due to the severe repression of "democratic forces" in southern Korea by the "brutal" Rhee government; (3) Pyongyang may issue an announcement stating

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that the elections were held despite severe repression and quote figures to show the southern people overwhelmingly in favor of the Manifesto of the the "Unification Front"; (4) All further attempts to effect unification by "peaceful" means may be dropped in favor of an early invasion by the Peoples' Army.

From information presently available it is impossible to define Communist intentions with certainty. However, it now seems most probable that they will adopt either the first or second course of action outlined above while continuing to push expansion and training of the Peoples' Army for future action against the south.

#### CHINA

Military lull prevails--There was little civil war activity in China during the past week. The Communists, however, gave evidence of preparing for two major assaults while Nationalists' defensive maneuvers appeared as forlorn as ever. CHEN Yi made no significant advances toward Amoy, but, in the face of gradual Nationalist withdrawals and their general unwillingness to fight, CHEN can take Amoy whenever he chooses. Regular Communist troops on the south-central front have not yet entered Kwangtung in any strength, but advance units, joining with Kwangtung irregulars have extended guerilla operations to within 35 miles of Canton. As a result of the recent appointment of YEH Chien-ying to lead the Communists in Kwangtung, the GCF main force, marking time somewhere east of the Hengynag-Canton rail line, can be expected to launch their Canton offensive soon. The Northwest Communists, apparently halted after taking Kanchow and Sining, are now increasing their activity in west central Shensi, menacing HU Tsung-an and Szechwan. The Nationalist defenders of the Lanchow-Sining area have reportedly fled into the Kansu corridor. MA Pu-fang has gone to Taipei, MA Hung-kuei is in south China, and MA Chi-yuan, son of the former and acting commander of the MAs left for Chunking. The MAs reportedly have lost all will to fight after their futile "talk" with the Generalissimo, and their troops are reputedly disgruntled due to their recent defeats and the absconding of their generals.

Manchurian-USSR Trade Pact May Boomerang--The 1 August announcement of a trade pact between Manchuria and the USSR was primarily a propaganda gesture intended to demonstrate Soviet friendship and to express Chinese defiance of the "imperialist" blockade. The widespread publicity expressing support for the pact, and regional demands for similar pacts, are all signs of official Communist pride in the agreement. The embarrassing features of the pact, however, are even now realized by many Chinese--namely, that the USSR is neither a good market nor a good supplier as far as China is concerned.

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The Liberated Daily inadvertently points out the disadvantages of the pact in a recent editorial answer to a critic of the pact. In explaining why Manchuria food is to be exported in the face of China's shortages, the editor states that the agreement is only with Manchuria, not China, thereby admitting either that such an agreement would be harmful to China or that China has no priority on Manchuria's surplus. He argues that paper is imported rather than pulp because Manchuria's paper mills are not restored, which is contrary to the fact as there is plenty of unused capacity in both China and Manchuria. He explains that the Soviet Union wants corn and grain instead of China's traditional exports--bristles, tea, vegetable oil, etc.--by the self-contradictory statement: "Even though the Soviet Union has abundant agricultural products, statistical data over the years show it has imported corn and grain." Finally, he discourages hope of an industrial loan from the USSR, arguing that China has ample barter goods to exchange for what it needs.

These specious explanations will not justify the agreement to the Chinese intelligentsia whose support the Communists are now trying to solicit, and certainly not to the sceptical businessmen in Shanghai to whom the economic disadvantages of trade with the USSR will become obvious.

Communists continue to export through Tientsin--Despite the blockade by the Nationalist navy, exports from Communist China through the port of Tientsin have held up fairly well in past months. The most recently announced figure for exports through Tientsin compares favorably with the figure for the same month last year. The reliability of the Communist statistics is generally supported by the US Consul General at Tientsin. According to the Consul General, consular declared exports to the United States totaled \$1.4 million in August - somewhat less than the figures for June and July, but twice the figure for May.

"B"

The success of the Chinese Communists in maintaining the level of exports through Tientsin testifies to the limited effectiveness of the Nationalist blockade. At Shanghai, the blockade has succeeded almost completely in shutting off the port from foreign shipping. Farther north, however, foreign-flag vessels have been subject to less harassment from the Nationalist navy. The relative freedom of North China from the blockade has prompted a few Shanghai firms to relocate their offices in Tientsin. Other firms have swelled the Tientsin export totals by shipping goods to Tientsin rather than attempting to run the blockade out of Shanghai.

Exports from North China have also been encouraged by subsidies which the Communist authorities have granted certain exporters. The North

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China Foreign Trade Bureau has followed a fairly open policy of selling for export at prices below cost. The losses to this Communist trade agency are presumably made up from the government treasury. Subsidies have taken a more hidden form in the shape of loans to exporters at preferential rates. Another form of hidden subsidy has been the purchase of dollars from exporters at rates far above the official quotations. Although the various subsidies render cargoes from China subject to countervailing duties by the United States, such duties have not thus far been imposed, and the Chinese Communists continue to press these measures for maintaining their export trade.

#### NEWS NOTE

Over 80% of the world's tungsten reserves have been captured by the Chinese Communists in their recent drive through Kiangsi into Kwangtung. The USSR now not only has access to more than adequate supplies of this strategic metal for its own needs but may well be in a position to prevent the non-Soviet world from getting it. Even in postwar years Chinese production of tungsten concentrates has been over one-third of world production. The 2 million-odd tons of tungsten in China are concentrated in southern Kiangsi, where most of the modern mills are located. Since neither mining nor concentrating the ore require elaborate machinery, the USSR can be expected to attempt to exploit China's tungsten in the near future.

#### INDONESIA

"Cease-fire" endangered--Local reports as to the effectiveness of the month-old cease-fire order in Indonesia have been surprisingly optimistic. One of the most important Dutch political representatives in Indonesia has estimated that "armed contacts" have decreased by eighty per cent since 10 August. All thirteen of the local joint committees which were organized to supervise implementation of the military agreement are now functioning. Committees in Sumatra and West Java have made considerable progress in the delineation of zones of patrol, but in other areas progress has been much slower. In East Java, for example, both Dutch Republican commanders have caused their respective governments much concern by pursuing independent militant courses.

"A"

One of the greatest obstacles to the continued success of the truce will be the attitudes of high-ranking Dutch military officers in Indonesia. Despite the low percentage of actual "incidents", many Dutch commanders are concerned over the extent of Republican infiltrations and feel that Netherlands forces should at least be prepared to "consolidate" their positions if, as they argue, the situation deteriorates.

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Any offensive action undertaken by the Netherlands military, even though it did not attain the proportions of former "police actions," could easily lead to incidents which would destroy the truce and preclude success of The Hague Roundtable negotiations.

### INDOCHINA

Bao Dai's diplomatic problems--The attitudes of neighboring Southeast Asian countries toward Bao Dai's "independent" state of Vietnam are still decidedly reserved as evidenced by the cool reception accorded letters recently sent by the Emperor announcing the establishment of his state. Similar messages to the US and the UK were also dispatched following their approval by the French Foreign Office. SEA countries are now apparently awaiting action by the US and UK before committing themselves to receive a good will mission or to extend formal recognition. The Indian Prime Minister has indicated that it would be "inconvenient" to receive a mission before November, a decision which was presumably reached in view of his October US trip and in order to await further developments in Indochina. The Phibul Government in Thailand has reserved public comment, and may further temporize by adopting a Defense Council recommendation that it express a desire to recognize an independent Vietnamese Government without either the Ho or the Bao Dai regime. "B"

Since it is obvious that Bao Dai's prestige will suffer further unless he achieves some measure of diplomatic success before November, it has been suggested by the US Consul General in Saigon that the US reply to Bao Dai's letter cooperate with the British in urging SEA nations to establish early relations with the Bao Dai Government and take the initiative in publicly supporting the Emperor. Although this latter suggestion is contrary to the US position that initial backing should derive from neighboring countries, the Consul General believes that prior action by the US might encourage Vietnam's neighbors to imitate the example. Until concrete achievements are reported by the Commission for the Application of the 8 March Accords, however, such a development is not likely. Furthermore, diplomatic arrangements have been assigned a lower priority on the Commission's agenda for discussion than questions of justice and security. In any case, the sub-committees which have been appointed to make recommendations to the Commission are not expected to report for at least three months.

These delays in implementation of the accords, in conjunction with the fact that the 21 June statement by the US (which welcomed with reserve the formation of the unified state of Vietnam) has lost much of its effect, indicate that further championship of Bao Dai at this time by the US before final conventions have been signed by both contracting parties may cause the opposite of the desired effect, i.e., a further distrust by neighboring SEA countries of the Bao Dai experiment.

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MALAYA

Aid for Malaya's rubber--Successful implementation of a recently-stated US policy to open to natural rubber a wide market in the US will have a favorable effect on the stability of Malaya. Because Malaya's economy is largely based on her rubber industry such a development will do much to ensure the continued economic well-being of the country, will counteract the spread of terrorism, and will help to reduce political dissension among those who otherwise, in the face of an expanding US synthetic program, might find their livelihood threatened. As a result, the UK's ability to maintain control of this vital area, and Malaya's orientation toward the West, will be considerably strengthened.

"B"

PHILIPPINES

Election possibilities--Although Philippine presidential elections are scheduled within less than two months, no one of the three candidates has a sufficient edge on his rivals so that observers may definitely predict the likelihood of his victory. President Elpidio Quirino, the candidate of one faction of the Liberal Party, currently appears to be in the lead and can count as supporting factors his control of the Administration and favorable popular reaction to his United States visit. The latter, however, may prove of transient value. The rival Liberal candidate, Jose Avelino, is least likely to win the election but may contribute to Quirino's defeat by carrying a sizable Liberal vote. This possibility was increased by the 9 September decision of the Electoral Commission allocating the Avelino wing one of the two election inspectors reserved by law to the majority party. The minority party gets the third inspector. The chances of Nacionalista candidate Jose P. Laurel continue to be very good although an Avelino source has reported that an Avelino-Quirino rapprochement is still possible should it appear necessary to defeat Laurel.

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